

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Marquette County Transit Authority	County Marquette
Fiscal Year End September 30, 2005	Opinion Date January 13, 2006	Date Audit Report Submitted to State June 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

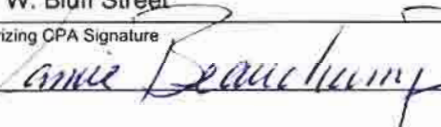
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Nothing came to our attention requiring inclusion in a Management Letter.	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Makela, Toutant, Hill, & Nardi, P.C.		Telephone Number (906) 228-3600	
Street Address 201 W. Bluff Street		City Marquette	State MI
		Zip 49855	
Authorizing CPA Signature 		Printed Name Jamie Beauchamp	License Number 1101024602

Audited Basic Financial Statements
Required Supplementary Information
and Other Information

MARQUETTE COUNTY TRANSIT AUTHORITY
MARQUETTE, MICHIGAN

September 30, 2005 and 2004

Audited Basic Financial Statements
Required Supplementary Information
and Other Information

MARQUETTE COUNTY TRANSIT AUTHORITY

Years Ended September 30, 2005 and 2004

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Management's Discussion and Analysis

Using This Annual Report

This annual report includes a series of financial statements for the Marquette County Transit Authority (Authority). The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a long-term view of the Authority's finances. This is the second year of reporting under the GASB #34 reporting model.

The Authority as a Whole

The Authority's current assets as of September 30, 2005, decreased by \$1.52 million from the prior year due to the expenditure of loan funds from the State Infrastructure Bank for costs of the new facility. Net capital assets increased by \$751,000 due to the continuation of construction of the new facility.

The decrease in Current and Long-Term Liabilities is due to the payment of construction costs that were payable as of September 30, 2004, and a \$1 million payment on the State Infrastructure Bank loan respectively.

In a condensed format, the table below reflects the financial position of Marquette County Transit Authority.

	September 30	
	2005	2004
Current Assets	\$ 788,806	\$ 2,314,744
Net Capital Assets	6,114,797	5,363,965
TOTAL ASSETS	6,903,603	7,678,709
Total Current Liabilities	334,370	1,170,423
Long-Term Liabilities	746,192	1,760,419
TOTAL LIABILITIES	1,080,562	2,930,842
Net Assets		
Invested in Capital Assets, net of related debt	5,354,378	3,589,866
Restricted for capital project	295,833	1,700,000
Unrestricted (deficit)	172,830	(541,999)
TOTAL NET ASSETS	5,823,041	4,747,867
TOTAL LIABILITIES & NET ASSETS	\$ 6,903,603	\$ 7,678,709

The following table reflects the results of operations of the Marquette County Transit Authority:

	Year Ended September 30	
	2005	2004
Operating Revenues	\$ 375,833	\$ 280,084
Non-Operating Revenues - Local	864,787	654,876
Non-Operating Revenues - State	994,696	1,051,639
Non-Operating Revenues - Federal	306,403	260,846
TOTAL REVENUES	2,541,719	2,247,445
Operating Expenses	2,988,263	2,775,272
LOSS BEFORE CONTRIBUTIONS	(446,544)	(527,827)
Capital asset additions funded with state and federal capital grants	1,521,718	3,479,758
INCREASE IN NET ASSETS	1,075,174	2,951,931
Net assets at beginning of year	4,747,867	1,795,936
NET ASSETS AT END OF YEAR	\$ 5,823,041	\$ 4,747,867

Operations of the Authority

The Authority's revenues for 2005 increased by approximately \$294,000, primarily due to the increase in the local millage. The Authority's revenues consist of state (39%) and federal operating (12%) grants, and the local millage (34%). Passenger and contract fares provide approximately 15% of revenue.

Expenses increased by nearly \$213,000 or 8% for the year ended September 30, 2005. Increases in health insurance costs, fuel costs, and the cost of maintaining an aging fleet, were the primary reasons for the change from the prior year. The Authority's Board of Directors performed an aggressive review of the budget that resulted in the elimination of a number of administrative expenses and a cut in unproductive hours on various fixed routes and other service areas.

Economic Factors

The Authority relies heavily on state and federal revenues, and the local millage. Given the condition of the State of Michigan's financial challenges, and the local operating assistance decreases the Authority has experienced in recent years, we expect further decreases in state funding for fiscal year 2006. The Authority received voter approval for an increase in the millage levy from .4857 mills to .6000 mills for fiscal year 2005.

Budget Review

On the following page is the Authority's operating budget for the year ended September 30, 2005. The following analysis reflects the budget adopted at the beginning of the year, the last budget amendment of the year, and the actual expenditures and revenues at year end. At the end of each quarter of the fiscal year, the budget is reviewed and adjustments are made to reflect operations more accurately.

Budget Expenditures

During the year, the budget was reviewed to identify areas of savings. Administrative expenses ended the year \$20,559 below budget. Reductions occurred in the area of communications, promotions, travel, and organizational memberships.

Operational costs exceeded the budget by \$469,241. This amount, over the budget, is primarily due to depreciation not being budgeted for operational costs. Fuels and utilities accounted for the remaining excess of expenditures over the budgeted amount.

Maintenance costs ended the year \$6,219 below budget. Although this area ended below the budgeted amount, the Authority had increased the budget due to a continued aging fleet requiring more frequent and more expensive repairs.

Fiscal Year 2005 Operating Budget--As Amended and Year End Actual

<u>ADMINISTRATION</u>	Adopted FY 2005 Budget	Amended 6/30/2005 Budget	Variance	Actual 9/30/2005 Expenses	Variance
Salaries	\$ 235,100	\$ 235,100		\$ 221,053	\$ (14,047)
Fringe Benefits	120,700	120,700		113,517	(7,183)
Legal Services	500	500			(500)
Auditing Services	5,400	5,400		5,400	
Materials & Supplies	10,300	10,300		8,505	(1,795)
Telephone	6,800	6,800		5,359	(1,441)
Other Corp Insurance	5,500	8,300	\$ 2,800	18,242	9,942
Travel & Training	4,600	6,000	1,400	5,995	(5)
Advertising & Promotion	12,000	9,600	(2,400)	5,001	(4,599)
Computer	9,600	7,200	(2,400)	7,121	(79)
Board Per Diem	11,300	14,400	3,100	14,063	(337)
Miscellaneous	6,200	4,600	(1,600)	4,085	(515)
Total Administration	428,000	428,900	900	408,341	(20,559)
<u>MAINTENANCE</u>					
Maintenance Labor	159,500	159,500		151,827	(7,673)
Maintenance Fringe Benefits	74,000	92,000	18,000	80,996	(11,004)
Repair Service	56,700	80,000	23,300	70,927	(9,073)
Maintenance Supplies	6,200	8,000	1,800	7,767	(233)
Repair Parts	123,600	123,600		145,254	21,654
Electricity - Bus Plug-in	900	900		1,010	110
Total Maintenance	420,900	464,000	43,100	457,781	(6,219)
<u>OPERATIONS</u>					
Drivers' Wages	851,300	851,300		800,353	(50,947)
Drivers' Fringe Benefits	325,700	325,700		316,320	(9,380)
Dispatch Labor	90,900	90,900		96,468	5,568
Bus Wash Wages	1,800	1,800		31,456	29,656
Radio System Fees	12,300	12,300		12,410	110
Employee Uniforms	9,000	9,000		6,460	(2,540)
Fuel for Vehicles and Lubricants	136,100	175,000	38,900	197,695	22,695
Tires & Tubes	21,600	21,600		22,790	1,190
Other Materials and Supplies	15,100	15,100		39,242	24,142
Safety	7,100	7,100		3,415	(3,685)
Fleet Insurance	111,300	111,300		101,039	(10,261)
Ishpeming Facility Operations	10,800	10,800		9,551	(1,249)
Rent	21,000	21,000		25,327	4,327
Utilities				39,114	39,114
Interest				15,033	15,033
Depreciation				405,468	405,468
Total Operations	1,614,000	1,652,900	38,900	2,122,141	469,241
TOTAL EXPENDITURES	\$ 2,462,900	\$ 2,545,800	\$ 82,900	\$ 2,988,263	\$ 442,463

Budget Revenues

As of September 30, 2005, a number of fare line items were below the budgeted amounts due to lower ridership on some routes, as well as, overly optimistic adjustments on the June 30, 2005, quarterly budget amendment. State operating assistance was significantly below budget despite an adjustment at June 30. Lower state operating assistance is due to state reductions in the percentage provided to local systems. Additionally, the Authority bases the state operating assistance budget on an estimate submitted nine months prior to the adoption of the Authority's budget. If the adopted budget has lower expenses than the estimated budget, state-operating assistance will be less since it is based on a percentage of eligible expenses. Federal operating assistance is also based on a percentage of eligible expenses. While the percentage provided has been static in recent years, lower revenue will result when expenses are less than the estimated budget submitted for the grant.

<u>REVENUES</u>	Adopted FY 2005 Budget	Amended FY 2005 Budget	Variance	Actual FY 2005 Revenues	Variance
Marquette Routes	\$ 26,900	\$ 26,900		\$ 27,835	\$ 935
Ishpeming Routes	30,000	30,000		33,057	3,057
K I Sawyer Routes	18,900	18,900		18,776	(124)
Trowbridge Routes	8,900	8,900		8,699	(201)
Shopper's Shuttle	4,100	4,100		3,909	(191)
Negaunee Shuttle	700	1,100	\$ 400	1,208	108
Trolley Fares	1,100		(1,100)		
Marquette City Small Bus	20,200	20,200		18,445	(1,755)
Ishpeming Small Bus	10,100	10,100		10,236	136
Out-County Small Bus	36,900	36,900		45,280	8,380
Special Service Fares	1,800	3,000	1,200	3,272	272
Special Contract Fares	119,000	119,000		133,739	14,739
Freight	1,000	700	(300)	780	80
Charter	13,200	17,200	4,000	7,598	(9,602)
Trolley Charter	4,500	1,000	(3,500)	355	(645)
Advertising	2,400		(2,400)		
MTC Administration Fee	1,600	1,700	100	1,710	10
Greyhound Bus Shortage		2,100	2,100	2,163	63
Miscellaneous	200	3,600	3,400	3,636	36
Inter-City Ticket Commissions	18,400	17,400	(1,000)	16,093	(1,307)
Vending Machines		200	200	246	46
Ad Valorem Tax	841,000	841,000		825,979	(15,021)
State Form Operating Assistance	1,083,000	985,800	(97,200)	945,062	(40,738)
State Special Services Grant	54,600	49,900	(4,700)	49,634	(266)
Federal RTAP Grant	3,500	3,500		1,525	(1,975)
Bus Rehabilitation - State	12,000		(12,000)		
Federal Operating Assistance	280,800	280,800		311,984	31,184
Interest Earnings	4,400	4,400		6,080	1,680
Capital Grant Administration	1,200		(1,200)		
Revenue From MTC	21,000	10,400	(10,600)		(10,400)
Prior Year's Grant Adjustment				64,418	64,418
TOTAL REVENUES	\$ 2,621,400	\$ 2,498,800	\$ (122,600)	\$ 2,541,719	\$ 42,919

Capital Asset and Debt Administration

As of September 30, 2005, the Authority had \$8,331,247 in capital assets purchased with state and federal grants, and \$289,314 purchased with Authority funds. The capital assets included buildings and land of \$5,759,019 and vehicles and other equipment totaling \$2,861,542. The Authority had a balance of \$60,419 to pay on a state infrastructure bank loan for an Ishpeming operations facility. As of September 30, 2005, the Authority had a balance of \$700,000 to pay on a state infrastructure bank loan for the construction of the new Marquette area operations facility.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the:

Marquette County Transit Authority
1325 Commerce Drive
Marquette, Michigan 49855
(906) 225-1283
marqtran@miuplink.net



REPORT OF INDEPENDENT AUDITORS

Board of Directors
Marquette County Transit Authority
Marquette, Michigan

We have audited the accompanying financial statements of Marquette County Transit Authority (Authority) as of and for the years ended September 30, 2005, and 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marquette County Transit Authority as of September 30, 2005, 2004, and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2006, on our consideration of Marquette County Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



Board of Directors
Marquette County Transit Authority

The management's discussion and analysis on pages one through six is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplemental and compliance schedules, and the schedule of expenditures of federal and state awards listed in the table of contents are presented for purposes of additional analysis as required by the Michigan Department of Transportation and by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Makela, Toutant, Hill & Nardi, P.C.

January 13, 2006

BALANCE SHEETS

MARQUETTE COUNTY TRANSIT AUTHORITY

	September 30	
	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 272,190	\$ 1,756,278
Investments		18,759
Receivables:		
Trade accounts	30,559	29,651
Due from federal government	207,601	636
Due from State of Michigan		247,713
Due from local unit	104,263	116,866
Inventory	157,804	123,363
Prepaid expenses	16,389	21,478
TOTAL CURRENT ASSETS	788,806	2,314,744
CAPITAL ASSETS		
Property, plant, and equipment	8,620,561	7,464,260
Less accumulated depreciation	(2,505,764)	(2,100,295)
NET CAPITAL ASSETS	6,114,797	5,363,965
TOTAL ASSETS	<u>\$ 6,903,603</u>	<u>\$ 7,678,709</u>

	September 30	
	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 31,005	\$ 690,955
Accrued interest	7,066	4,808
Due to R-Tran		26,292
Due to State of Michigan	39,373	177,983
Due to federal government		939
Accrued expenses:		
Salaries and wages	46,500	51,866
FICA withholding	3,206	
Compensated absences	168,590	182,079
Unearned revenue	24,403	21,821
Current portion of debt--due within one year	14,227	13,680
TOTAL CURRENT LIABILITIES	334,370	1,170,423
LONG-TERM LIABILITIES		
Notes payable--due in more than one year	746,192	1,760,419
TOTAL LIABILITIES	1,080,562	2,930,842
NET ASSETS		
Invested in capital assets, net of related debt	5,354,378	3,589,866
Restricted for capital project	295,833	1,700,000
Unrestricted (deficit)	172,830	(541,999)
TOTAL NET ASSETS	5,823,041	4,747,867
TOTAL LIABILITIES AND NET ASSETS	\$ 6,903,603	\$ 7,678,709

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2005	2004
Operating revenues (Schedule 1)	\$ 375,833	\$ 280,084
Operating expenses (Schedule 2)	<u>2,988,263</u>	<u>2,775,272</u>
OPERATING LOSS	(2,612,430)	(2,495,188)
Non-operating revenues--local (Schedule 3a)	864,787	654,876
Non-operating revenues--state and federal (Schedule 3b)	<u>1,301,099</u>	<u>1,312,485</u>
LOSS BEFORE CONTRIBUTIONS	(446,544)	(527,827)
Capital Contributions:		
Capital asset additions funded with state and federal capital grants	<u>1,521,718</u>	<u>3,479,758</u>
INCREASE IN NET ASSETS	1,075,174	2,951,931
Net assets at beginning of year	<u>4,747,867</u>	<u>1,795,936</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 5,823,041</u></u>	<u><u>\$ 4,747,867</u></u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2005	2004
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	\$ 392,728	\$ 299,625
Cash operating grants received from other governments	2,199,333	2,092,820
Cash received from interest	6,080	2,643
Cash paid for interest	(12,776)	(4,060)
Cash paid to employees for services	(1,317,035)	(1,304,624)
Cash paid to suppliers of goods and services	(1,484,176)	(1,356,529)
NET CASH (USED) BY OPERATING ACTIVITIES	(215,846)	(270,125)
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from capital grants	1,521,718	3,479,763
Proceeds from borrowing		1,831,980
Principal repayments on long-term debt	(1,013,680)	(145,134)
Payments for capital acquisitions	(1,795,039)	(3,256,565)
NET CASH FLOWS PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(1,287,001)	1,910,044
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	18,759	36,865
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	18,759	36,865
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,484,088)	1,676,784
Cash and cash equivalents at beginning of year	1,756,278	79,494
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 272,190	\$ 1,756,278
Net operating loss	\$ (446,544)	\$ (527,827)
Adjustments to reconcile net operating loss to cash provided (used) by operating activities:		
Depreciation	405,469	308,753
Loss on disposal of asset		2,121
(Increase) Decrease in:		
Trade accounts receivable	(908)	(5,178)
Due from federal government	(206,965)	269,475
Due from State of Michigan	247,713	(182,710)
Due from local units	12,603	66,054
Inventory	(34,440)	(5,901)
Prepaid expenses	5,089	18,016
Increase (Decrease) in:		
Accounts payable	(21,212)	(303,051)
Due to federal government	(939)	939
Due to State of Michigan	(138,610)	92,646
Due to R-Tran	(26,292)	(6,232)
Accrued expenses	(13,391)	1,845
Unearned revenue	2,581	925
NET CASH FLOWS (USED) BY OPERATING ACTIVITIES	\$ (215,846)	\$ (270,125)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE COUNTY TRANSIT AUTHORITY

September 30, 2005

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Marquette County Transit Authority (Authority) and the methods of applying those policies, which materially affect the determination of the financial position, changes in equity, and results of operations are summarized below.

Description of Reporting Entity: The Marquette County Transit Authority (Authority) was created by an Interlocal Agreement under Act 7 of the Public Acts of 1967 on October 1, 1985, by the County of Marquette; the cities of Ishpeming and Marquette; the Marquette Transit Authority; and the Ishpeming Transportation Authority to provide a cost effective and efficient public transportation system through the consolidation of the entities into a unified county system. The separate consolidated legal entity was designated as the Marquette County Transit Authority. The Authority provides public transportation to residents of the County of Marquette, Michigan.

The Marquette County Transit Authority is considered to be an independent agency of the County of Marquette for accounting purposes and is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP.

The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographical boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component unit organizations included in the Authority's reporting entity.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Accounting: The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are recognized on the accrual basis in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. These financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Reporting: The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). SGAS 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into the three components of: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Budget:

The Authority follows these procedures in establishing budgetary data:

- a) Authority administration prepares and submits to the Authority Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenses, and the means of financing them, and is stated on a basis consistent with GAAP.
- b) The Authority Board formally adopts the finalized operating budget at a normal public meeting held prior to the commencement of the fiscal year.
- c) Authority administration is authorized to transfer budgeted amounts between line items within departmental budgets with post-transfer Authority Board approval.
- d) Formal budgetary integration is employed as a management control device during the year.
- e) Budgetary authority lapses at year-end.
- f) The Authority Board has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur, and the amount of the deviation can be determined. Once originally adopted, the budget is adjusted quarterly as necessary.

Cash and Cash Equivalents: The District has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Deposits and Investments: The Authority reports investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed. The Authority did not have any investments as of September 30, 2005.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments as described above, and obligations of the State of Michigan or any of its political subdivisions, that at the time of purchase, are rated as investment grade by not less than one standard rating service.

Receivables

Revenues earned, but not yet received, as of the fiscal year end are recorded as a receivable on the Authority's balance sheet. A provision for doubtful accounts is not necessary because all significant amounts are collected within two months of the balance sheet date or are due from other governmental units.

Inventory

The Authority utilizes a perpetual inventory system for replacement parts accounted for by the consumption method and valued at the lower of cost or market.

Capital Assets and Depreciation

Capital assets are stated at original cost at the date of acquisition, if purchased, or at fair market value at the date of donation. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and improvements, when significant in amount, are capitalized. Provisions for depreciation are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives in accordance with guidelines provided by the Michigan Department of Transportation (MDOT). Depreciation of assets acquired with capital grant funds, which is the majority of capital assets, is charged against contributed capital accounts in the balance sheet.

Depreciation of all exhaustible capital assets used by the Authority is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. The estimated useful lives are as follows:

Building	40 years
Bus Shelters & Signs	4-10 years
Equipment	4-10 years
Buses	4-10 years

Unearned Revenue

The Authority's sales of fare tickets are recorded as unearned revenue until the tickets are redeemed in exchange for transportation services.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Grants

Revenue from the federal government and state of Michigan operating grants are recorded as earned when expenses are incurred. Adjustments made to the operating grants by MDOT are recognized in the year they become measurable. The unearned portion of grant contracts received, if any, are reported as deferred revenue until such time as expenses are incurred.

Capital grants are reported as additions to contributed capital accounts on the balance sheet when qualifying expenses are incurred. The unexpended portions of capital grant contracts, if any, are reported as a liability to the issuing grantor, except for those amounts that are contractually obligated but not expended.

Revenue

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its principal ongoing operations. The principal operating revenues of the Authority are charges to customers for their transportation. Operating expenses for the Authority include the cost of providing rides to customers, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulations.

It is the Authority's policy to first apply restricted resources to expenses that are incurred for purposes for which both restricted and unrestricted net assets are available.

Comparative Data

Summaries of comparative data for prior years have been presented in the accompanying financial statements to provide an understanding of changes in the Authority's financial position, results of operations, and cash flows.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE B--CASH AND INVESTMENTS

Cash and cash equivalents, included in the basic financial statements as of September 30, 2005, consist of the following:

Basic Financial Statements:	
Cash and cash equivalents	<u>\$ 272,190</u>

Cash and cash equivalents can also be summarized into the following categories:

	<u>Cash & Cash Equivalents</u>
Cash in checking	\$ 18,759
Money market funds	251,861
Cash on hand	<u>1,570</u>
	<u>\$ 272,190</u>

Custodial Credit Risk

At year-end, the carrying amount of the Authority's deposits with financial institutions was \$272,190 and the balance per bank statement was \$294,969. Of the bank balance, \$100,000 of the Authority's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$194,969 was uninsured and uncollateralized. Therefore, the Authority is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal credit risk.

The Authority did not have any investments as of September 30, 2005.

NOTE C--DUE FROM GOVERNMENTAL UNITS

A summary of amounts due from governmental units as of September 30, 2005, is as follows:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
<u>Michigan Department of Transportation</u>				
Operating Assistance Grant Contract #2002-0064/Z17		\$ 1,335		\$ 1,335
Operating Assistance Grant Contract #2002-0064/Z18	\$ 87,601			87,601
<u>City of Marquette</u>				
Federal portion due from sale of MTC - old building	120,000			120,000
Federal portion due from City for administrative expenses			\$ 104,263	104,263
AMOUNT DUE FROM OTHER GOVERNMENTAL UNITS AT SEPTEMBER 30, 2005	<u>\$ 207,601</u>	<u>\$ 1,335</u>	<u>\$ 104,263</u>	<u>\$ 313,199</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE D--CAPITAL ASSETS

A summary of capital assets is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Purchased with Authority Funds				
Land	\$ 21,000			\$ 21,000
Buildings	587,949		\$ 414,651	173,298
Bus shelters and signs	3,486			3,486
Vehicles	56,325			56,325
Other equipment	35,205			35,205
	<u>703,965</u>		<u>414,651</u>	<u>289,314</u>
Accumulated depreciation	<u>(157,846)</u>	<u>\$ (13,388)</u>		<u>(171,234)</u>
Net purchased with Authority Funds	<u>546,119</u>	<u>(13,388)</u>	<u>414,651</u>	<u>118,080</u>
Purchased with capital grants				
Land	248,754			248,754
Land improvements	30,891			30,891
Buildings	3,874,982	1,410,094		5,285,076
Bus shelters and signs	24,376			24,376
Vehicles	2,400,996	160,859		2,561,855
Other equipment	180,295			180,295
	<u>6,760,294</u>	<u>1,570,953</u>		<u>8,331,247</u>
Accumulated depreciation	<u>(1,942,449)</u>	<u>(392,081)</u>		<u>(2,334,530)</u>
Net purchased with capital grants	<u>4,817,845</u>	<u>1,178,872</u>		<u>5,996,717</u>
NET CAPITAL ASSETS	<u>\$ 5,363,964</u>	<u>\$ 1,165,484</u>	<u>\$ 414,651</u>	<u>\$ 6,114,797</u>

When federal or state funded assets are taken out of public transportation service the disposition of the assets is determined by MDOT.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE E--COMPENSATED ABSENCES

Employees earn sick leave at the rate of one (1) day per month, not to exceed twelve (12) days per year. Upon retirement or termination, employees in good standing with at least ten (10) years of service, will be paid one-half (1/2) of such sick leave accumulated at that time at their current rate of pay. Non-union employees with service dates beginning after July 1, 1983, can accumulate unlimited sick leave, with a maximum payment of one hundred twenty (120) days; however, non-union employees with service dates beginning before July 1, 1983, can accumulate and can receive payment on an unlimited amount of sick leave. Union employees may accumulate sick leave to a maximum of one hundred twenty (120) days with payment upon retirement or death at one-half (1/2) of the time accumulated at their current rate of pay. Once each year, employees may elect to sell back to the Authority any amount of accrued sick leave in excess of twenty days. Employees earn vacation leave based upon hours worked during the year and length of employment. Upon retirement or termination, employees are paid for all such outstanding days accumulated at their current rate of pay, with a maximum accumulation of thirty (30) days.

NOTE F--LONG-TERM DEBT

The Authority entered into a general loan contract with MDOT on September 16, 1999, for the purchase of a maintenance and operational facility in Ishpeming, Michigan. The loan is payable in annual installments of \$16,644 for ten years at a fixed interest rate of four percent. A summary of the changes in long-term debt as of September 30, 2005, is as follows:

Balance at September 30, 2004	\$ 74,099
Less principal payments	<u>13,680</u>
Balance at September 30, 2005	<u><u>\$ 60,419</u></u>

The schedule of annual principal and interest payments for the next four years is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 14,227	\$ 2,417	\$ 16,644
2007	14,797	1,847	16,644
2008	15,388	1,256	16,644
2009	<u>16,007</u>	<u>640</u>	<u>16,647</u>
TOTALS	<u><u>\$ 60,419</u></u>	<u><u>\$ 6,160</u></u>	<u><u>\$ 66,579</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE F--LONG-TERM DEBT--Continued

The Authority entered into a general loan contract with MDOT on August 27, 2004, for transportation infrastructure improvements of the Marquette County Transit Authority's facility project in Marquette, Michigan. The loan is payable on or before August 27, 2007, including interest at a rate of three percent. A summary of the changes in long-term debt as of September 30, 2005, is as follows:

Balance at September 30, 2004	\$ 1,700,000
Loan funds received	
Less principal payments	<u>1,000,000</u>
Balance at September 30, 2005	<u><u>\$ 700,000</u></u>

The schedule of annual principal and interest payments for the life of the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005			
2006			
2007	<u>\$ 700,000</u>	<u>\$ 48,200</u>	<u>\$ 748,200</u>
TOTALS	<u><u>\$ 700,000</u></u>	<u><u>\$ 48,200</u></u>	<u><u>\$ 748,200</u></u>

The following is a summary of long-term debt activity for the year ended September 30, 2005:

	<u>September 30, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>September 30, 2005</u>
Ishpeming Facility Loan	\$ 74,099		\$ (13,680)	\$ 60,419
Marquette Facility Loan	<u>1,700,000</u>		<u>(1,000,000)</u>	<u>700,000</u>
TOTAL LONG-TERM DEBT	<u><u>\$ 1,774,099</u></u>	<u><u>\$ 0</u></u>	<u><u>\$(1,013,680)</u></u>	<u><u>\$ 760,419</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE G--SCHEDULE OF CONTRIBUTED CAPITAL

	<u>Federal and State</u>	<u>Local</u>	<u>Total</u>
Balance at September 30, 2004	\$ 4,817,845		\$ 4,817,845
Add--Grants received	1,521,718		1,521,718
Less--Depreciation charged on assets acquired with contributed funds	<u>(392,082)</u>		<u>(392,082)</u>
Balance at September 30, 2005	<u>\$ 5,947,481</u>	<u>\$ 0</u>	<u>\$ 5,947,481</u>

NOTE H--COUNTY OF MARQUETTE SUBSIDY

The County of Marquette contributed \$825,979 to the Authority from a millage allocation for the year ended September 30, 2005.

NOTE I--COST ALLOCATION PLANS

The Authority has cost allocation plans for all allocated costs, which have been followed in the preparation of the financial statements. The Bus Transit Division of MDOT has approved these plans.

NOTE J--DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System ("System" or "MERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for Michigan municipal employees. MERS issues a publicly available financial report that includes the financial statements and required supplementary information for the entire System. The report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

All full-time employees of the Authority are eligible to participate in the System. Benefits vest after eight years of service. Bargaining unit employees who retire at or after the age of 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 1.2 percent times the first \$4,200 of a member's final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. Final Average Compensation (FAC) is the average of a member's monthly pay during the period of 60 consecutive months of credited service producing the highest monthly average. Administrative employees are entitled to 2.25 percent of FAC times the years of service.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

The System also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and the Authority's Board of Directors.

Active employees with eight or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service-connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly ten years of credited service, if their actual acquired credited service is less than ten years.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100 percent joint and survivor) election. If there is no named beneficiary and the member leaves a spouse, the surviving spouse will receive an allowance equal to 85 percent of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Authority employees who are members of the bargaining unit are required to contribute four percent of their annual compensation to the System. Full-time employees who are not members of the bargaining unit are not required to contribute to the System. The Authority is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Funding Status and Progress

The amount shown below as the "actuarial accrued liability" represents the difference between the present value of all future benefits and the present value of future normal costs. The unfunded actuarial accrued liability, which represents the actuarial accrued liability less assets accumulated, is then amortized over a period of thirty years. The measure over time is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans.

Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability less the accelerated funding credits, if any.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

At December 31, 2004, the unfunded actuarial accrued liability was \$266,110 determined as follows:

Actuarial accrued liability:

Retirees and beneficiaries currently receiving benefits	\$ 108,229
Terminated employees not yet receiving benefits	82,422
Pending refunds for non-vested terminated employees	
Current employees:	
Accumulated employee contributions including allocated investment earnings	358,541
Employer financed	1,323,606
TOTAL ACTUARIAL ACCRUED LIABILITY	1,872,798
Net assets available for benefits, at actuarial value (market value--\$1,568,319)	1,606,688
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 266,110

Actuarially Determined Contributions Required and Contributions Made

Periodic employer contributions are determined on an actuarial basis using the entry age normal cost method. Normal cost is funded on a current basis whereas the unfunded actuarial accrued liability is funded over a thirty-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The actuarial assumptions used include (a) a rate of return on the investment of 8 percent per year for present and future assets, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases based upon seniority and merit.

The Authority's payroll for employees covered by the System for the years ended September 30, 2005, and 2004, was \$731,433 and \$750,453 respectively. The Authority's total payroll for the two previous years was \$1,311,604 and \$1,328,921 respectively.

Total contributions to the pension plan in the year ended September 30, 2005, amounted to \$74,013, of which \$52,284 and \$21,729 were made by the Authority and its employees, respectively. The contributed amounts were actuarially determined based on an actuarial valuation as of December 31, 2004. Contributions made by the Authority and its employees represent 6.86 percent and 2.97 percent, respectively, of covered payroll for the year.

Analysis of Funding Progress

For the two years ending December 31, 2004 and 2005, available assets were sufficient to fund 87 and 86 percent, respectively, of the actuarial accrued liability. Unfunded (assets less than) accrued liabilities represented 30 and 35 percent of the annual payroll for employees covered by MERS for 2004 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE K--NET ASSETS

The Authority has elected to internally designate \$5,065 of its net assets for the replacement of the trolley. In the Balance Sheet, this amount is included in unrestricted net assets since there is no external legal authority or requirement to restrict this amount.

NOTE L--RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority was unable to obtain vehicle and general liability insurance at a cost it considered to be economically justifiable. The Authority joined other transit authorities in the Michigan Transit Pool Direct Property Damage Trust Fund and Liability Trust Fund. These funds operate as a common risk management and insurance program. The Authority makes annual contributions to the pool for its vehicle and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member contributions. The Direct Property Damage Trust Fund will re-insure through commercial companies for claims in excess of \$50,000 for each insured event. The liability declaration agreement reduces its exposure to large losses to \$2,000,000 per occurrence. An excess policy provides an additional \$4,000,000 in coverage.

The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M--BENEFIT PLANS

The Authority has adopted a Medical Care Expense Plan created in accordance with Internal Revenue Service Code Sections 105, 125, and 129. The Authority does not make any contributions to the plan; however, voluntary contributions made by qualified plan participants administered by the American Family Life Assurance Company totaled \$9,856 for the year ended September 30, 2005. In addition, voluntary contributions made toward the medical plan administered by the Michigan Employee Benefit Service, at five percent of premiums charged, totaled \$1,654 for the year ended September 30, 2005.

The Authority also belongs to a Deferred Compensation Plan created in accordance with Internal Revenue Service Code Section 457. The Authority does not make any contributions to the plan; however, voluntary contributions made by qualified participants to the plan administered by Variable Annuity Life Insurance Company totaled \$20,070 for the year ended September 30, 2005.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE M--BENEFIT PLANS --Continued

The Authority adopted a defined contribution plan for administration employees hired after June 1, 1999, which are eligible for MERS membership. The employer is required to contribute 12 percent of each participant's annual earnings. Employees may make voluntary, after-tax contributions subject to the limitations of section 415 of the Internal Revenue Code, but no employee contributions are required. Employer contributions are vested after one year of service. Employer contributions for the governmental money purchase plan administered by the ICMA Retirement Corporation for the year ended September 30, 2005, were \$2,787. No employee contributions were made during the year.

STATEMENTS OF OPERATING REVENUES
(Schedule 1)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2005	2004
OPERATING REVENUES		
Linehaul (farebox)	\$ 92,275	\$ 85,316
Demand--response (farebox)	78,442	65,868
Special contract fares	133,739	122,132
Charter services	7,953	24,076
Freight	780	906
Contract adjustments	62,644	(18,214)
TOTAL OPERATING REVENUES	<u>\$ 375,833</u>	<u>\$ 280,084</u>

STATEMENTS OF OPERATING EXPENSES
(Schedule 2)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30				
	Operations	Maintenance	Administration	2005	2004
LABOR					
Operators' wages	\$ 800,353			\$ 800,353	\$ 808,110
Other salaries and wages	31,456	\$ 151,827	\$ 221,053	404,336	400,749
Dispatchers' wages and salaries	96,468			96,468	92,800
FRINGE BENEFITS	316,320	80,996	113,517	510,833	501,139
SERVICES--OTHER	12,410	70,927	5,400	88,737	73,955
MATERIALS AND SUPPLIES CONSUMED					
Fuel and lubricants	197,695			197,695	141,602
Tires and tubes	22,790			22,790	22,642
Other materials and supplies	39,242	153,021	8,505	200,768	184,431
UTILITIES	39,114	1,010	5,359	45,483	9,152
CASUALTY AND LIABILITY COSTS					
Premiums for public liability and property damage insurance	101,039		18,242	119,281	89,722
MISCELLANEOUS					
Advertising/promotion, media			5,995	5,995	12,416
Other	19,426		30,270	49,696	38,940
LOAN INTEREST	15,033			15,033	8,867
LEASES AND RENTALS	25,327			25,327	81,994
DEPRECIATION	405,468			405,468	308,753
TOTAL OPERATING EXPENSES	<u>\$ 2,122,141</u>	<u>\$ 457,781</u>	<u>\$ 408,341</u>	<u>\$ 2,988,263</u>	<u>\$ 2,775,272</u>

STATEMENTS OF NON-OPERATING REVENUES--LOCAL
(Schedule 3a)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2005	2004
<hr/>		
NON-OPERATING REVENUES--LOCAL		
Local operating millage--County of Marquette	\$ 825,978	\$ 626,892
Interest income	6,080	2,643
MTC administration fee	1,710	6,163
Inter-city ticket commissions	16,093	16,158
Advertising		2,400
Miscellaneous	14,926	620
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES--LOCAL	<u>\$ 864,787</u>	<u>\$ 654,876</u>

STATEMENTS OF NON-OPERATING REVENUES--STATE AND FEDERAL
(Schedule 3b)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2005	2004
STATE OF MICHIGAN NON-OPERATING GRANTS		
Local Bus Operating Assistance	\$ 945,062	\$ 997,765
Specialized Services	49,634	53,874
Administration of Capital Grant		
Vehicle Rehab		
TOTAL STATE OF MICHIGAN NON-OPERATING REVENUES	<u>994,696</u>	<u>1,051,639</u>
FEDERAL NON-OPERATING GRANTS		
U.S. Department of Transportation Operating Assistance	304,878	258,674
RTAP	1,525	2,172
TOTAL FEDERAL NON-OPERATING REVENUES	<u>306,403</u>	<u>260,846</u>
TOTAL NON-OPERATING REVENUES--STATE AND FEDERAL	<u>\$ 1,301,099</u>	<u>\$ 1,312,485</u>

STATEMENT OF ELIGIBLE EXPENSES BY CONTRACT AND GENERAL OPERATIONS
(Schedule 4)

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

	Specialized Services	General Operations	Total
Labor	\$ 50,001	\$ 1,239,159	\$ 1,289,160
Fringe benefits	19,812	495,773	515,585
Services	3,411	104,786	108,197
Material and supplies	16,189	386,848	403,037
Utilities	1,748	6,124	7,872
Casualty and liability costs	4,554	113,942	118,496
Miscellaneous	1,832	6,013	7,845
Loan interest	114	14,919	15,033
Leases and rentals	973	116,597	117,570
Depreciation		405,468	405,468
TOTAL OPERATING EXPENSES	<u>98,634</u>	<u>2,889,629</u>	<u>2,988,263</u>
Less ineligible expenses		<u>430,937</u>	<u>430,937</u>
TOTAL ELIGIBLE EXPENSES	<u>\$ 98,634</u>	<u>\$ 2,458,692</u>	<u>\$ 2,557,326</u>

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

	Federal Section 18 2002-0064/Z3 10/01/04-09/30/05	State Operating Assistance 10/01/04-09/30/05
EXPENSES		
Labor	\$ 1,239,159	\$ 1,239,159
Fringe benefits	495,773	495,773
Services	104,786	104,786
Materials and supplies	386,848	386,848
Utilities	6,124	6,124
Casualty and liability costs	113,942	113,942
Miscellaneous	6,013	6,013
Loan interest	14,919	14,919
Leases and rentals	116,597	116,597
Depreciation	405,468	405,468
TOTAL EXPENSES	2,889,629	2,889,629
LESS INELIGIBLE EXPENSES		
Depreciation	392,081	392,081
Charter expenses	2,091	2,091
MTC administration fee	12,114	12,114
Miscellaneous revenue	3,636	3,636
Ineligible federal contracts	7,106	7,106
Ineligible state contracts	1,776	1,776
Freight revenue	1,496	1,496
Interest expense	8,930	8,930
RTAP	1,525	1,525
MPTA dues	182	182
TOTAL INELIGIBLE EXPENSES	430,937	430,937
NET ELIGIBLE EXPENSES	\$ 2,458,692	\$ 2,458,692
MAXIMUM SECTION 18 REIMBURSEMENT		
The lesser of 12.4% of net eligible expenses--\$304,878 or contract award--\$310,087	\$ 304,878	
MAXIMUM LOCAL BUS OPERATING ASSISTANCE (ACT 51)		
The lesser of 38.437574823% of net eligible expenses--\$945,062 or state operating assistance budget cap--\$1,107,396		\$ 945,062



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Marquette County Transit Authority
Marquette, Michigan

We have audited the financial statements of Marquette County Transit Authority as of and for the year ended September 30, 2005, and have issued our report thereon dated January 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marquette County Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marquette County Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Board of Directors
Marquette County Transit Authority

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Putant, Hill & Nardi, P.C.

January 13, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Marquette County Transit Authority
Marquette, Michigan

Compliance

We have audited the compliance of Marquette County Transit Authority, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Marquette County Transit Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Marquette County Transit Authority's management. Our responsibility is to express an opinion on Marquette County Transit Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marquette County Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marquette County Transit Authority's compliance with those requirements.

In our opinion, Marquette County Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Marquette County Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we



Board of Directors
Marquette County Transit Authority

considered Marquette County Transit Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Toubant, Hill + Nardi, P.C.

January 13, 2006

SCHEDULE OF FEDERAL AND STATE FINANCIAL AWARDS

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

Program Title	Federal CFDA Number	State Grantor Number	Program Award or Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures	Grant Amount Remaining
U.S. Department of Transportation							
Passed through MDOT:							
Capital Assistance - Section 5311	20.509	2002-0064/Z10	\$ 100,000	\$ 69,432	\$ 17,358	\$ 99,994	\$ 6
Capital Assistance - Section 5309	20.500	2002-0064/Z12	1,213,593	970,874	242,719	1,213,593	
Capital Assistance - Section 5311	20.509	2002-0064/Z14	85,000	68,000	17,000	85,000	
Capital Assistance - Section 5313(b)	20.515	2002-0064/Z19	10,272	7,106		8,882	1,390
Capital Assistance - Section 5311	20.509	2002-0064/Z20	125,000				125,000
Capital Assistance - Section 5309	20.500	2002-0064/Z21	75,000				75,000
Capital Assistance - SIB Loan	20.205	2004-0418	700,000	700,000			
				1,815,412	277,077 (247,713)	1,407,469	201,396
September 30, 2004 Accrual							
September 30, 2005 Accrual							
TOTAL CAPITAL ASSISTANCE				\$ 1,815,412	\$ 29,364	\$ 1,407,469	\$ 201,396
U.S. Department of Transportation							
Passed through MDOT:							
Operating Assistance - Section 5311	20.509	2002-0064-Z18	\$ 310,087	\$ 304,878		\$ 304,878	\$ 5,209
RTAP	N/A	N/A	1,525	1,525		1,525	
Michigan Department of Transportation:							
Operating Assistance	N/A	N/A	985,770		\$ 945,062	945,062	
Specialized Services	N/A	2002-0064/Z17	49,887		49,634	49,634	253
				306,403	994,696		
September 30, 2004 Accrual				(391)	(2,438)		
September 30, 2005 Accrual				87,601	1,335		
TOTAL OPERATING ASSISTANCE				\$ 393,612	\$ 993,593	\$ 1,301,099	\$ 5,462
TOTAL FEDERAL AND STATE FINANCIAL AWARDS				\$ 2,209,025	\$ 1,022,957	\$ 2,708,568	\$ 206,858

SCHEDULE OF FINDINGS AND QUESTIONED COSTS/INELIGIBLE EXPENSES

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

The following summarized the results of the auditing procedures:

- (1) An unqualified opinion was issued on the financial statements.
- (2) The audit did not disclose any noncompliance that is material to the financial statements.
- (3) An unqualified opinion was issued on compliance for major programs.
- (4) The audit did not disclose any findings related to major programs.
- (5) The major program was Federal Transit--Capital Investment Grant (CFDA# 20.500).
- (6) \$300,000 was used as the threshold to distinguish between Type A and Type B programs.
- (7) Marquette County Transit Authority does qualify as a low-risk auditee.

The following schedule summarizes those expenses, which are not eligible for reimbursement under the federal and state operating assistance grant formulas:

	<u>Ineligible Expenses/Questioned Costs</u>	
	<u>Federal Section 18 Per OMB Circular A-87</u>	<u>State Operating Assistance Per Revenue and Expense Manual</u>
Urban Mass Transportation Administration:		
A: Operating grants:		
1. Depreciation: Depreciation on contributed capital is an ineligible expense.	\$ 392,081	\$ 392,081
2. Charter expenses: Expenses pertaining to charter services are ineligible.	2,091	2,091
3. Administration fee: Expenses for transportation center administration reimbursed by local government are ineligible.	12,114	12,114
4. Miscellaneous revenue: Refunds of expenses reduce eligible costs.	12,518	12,518
5. Freight revenue: Expenses pertaining to freight services are ineligible.	1,496	1,496
6. Interest expense: Interest expense on the state infrastructure loan is ineligible.	8,930	8,930
7. RTAP: Amount is ineligible.	1,525	2,172
8. Miscellaneous expenses: A percentage of dues paid to MPTA are ineligible.	182	182

REPORT ON PRIOR YEAR AUDIT FINDINGS

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

There were no audit findings for the year ended September 30, 2004.

MILEAGE DATA (Unaudited)

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

	Public Transit Mileage	Special Services Mileage	Charter Mileage	Total Mileage
Linehaul:				
1 st Quarter	152,579	N/A	N/A	152,579
2 nd Quarter	152,156	N/A	N/A	152,156
3 rd Quarter	155,504	N/A	N/A	155,504
4 th Quarter	155,518	N/A	N/A	155,518
TOTAL LINEHAUL	615,757			615,757
Demand Response:				
1 st Quarter	73,551	12,477	24	86,052
2 nd Quarter	76,524	13,436	64	90,024
3 rd Quarter	73,109	13,424	172	86,705
4 th Quarter	70,918	12,420	180	83,518
TOTAL DEMAND RESPONSE	294,102	51,757	440	346,299
TOTAL OPERATION	909,859	51,757	440	962,056

VEHICLE HOURS AND PASSENGER DATA (Unaudited)

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2005

The Authority does not maintain a breakdown between senior and handicapped passengers for linehaul transportation; therefore, all riders are categorized as regular passengers.

	Public Transit Hours	Regular Passengers	Sr. Citizen Passengers	Senior/ Handicap Passengers	Handicap Passengers	Total Passengers
Linehaul:						
1 st Quarter	6,908	48,225	N/A	N/A	N/A	48,225
2 nd Quarter	6,888	49,886	N/A	N/A	N/A	49,886
3 rd Quarter	7,049	48,444	N/A	N/A	N/A	48,444
4 th Quarter	6,987	43,787	N/A	N/A	N/A	43,787
TOTAL LINEHAUL	27,832	190,342				190,342
Demand Response:						
1 st Quarter	5,717	13,510	1,974	3,159	6,676	25,319
2 nd Quarter	5,883	13,178	3,934	1,994	5,091	24,197
3 rd Quarter	5,564	3,403	3,856	2,139	6,510	15,908
4 th Quarter	5,827	20,634	3,255	2,431	6,092	32,412
TOTAL DEMAND RESPONSE	22,991	50,725	13,019	9,723	24,369	97,836
TOTAL OPERATION	50,823	241,067	13,019	9,723	24,369	288,178